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AIDAC
SIPDIS

DEPT FOR SRAP STAFF, SCA/FO, SCA/RA, SCA/A and EEB/CBA
DEPT PASS AID/ASIA BUREAU
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS TDA FOR STEIN AND GREENIP
DEPT PASS OPIC
CENTCOM FOR CSTC-A, USFOR-A
OSD FOR SEDNEY
TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVICH

E.O.12958: N/A

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SUBJECT: AFGHANISTAN MOVES UP EIGHT PLACES IN THE WORLD BANK'S DOING BUSINESS REPORT

REF: (A) Kabul 2056 (B) KABUL 3305

¶1. Summary: While still low-ranked as a place to do business, Afghanistan did ratchet up - from 168 to 160 - among 183 countries ranked by the World Bank in its recent Doing Business Report for ¶2010. Moreover, Afghanistan was also the only country in South Asia to improve its ranking. Improvements in three main indicators were important to Afghanistan's improved standing - Access to Credit, Registering Property, and Starting a Business. All are focal areas for U.S. technical assistance and capacity building. Access to credit registered the most dramatic improvement, up 53 spots from 180 to 127. At the same time Afghanistan's performance declined in five areas (Trading Across Borders, Paying Taxes, Enforcing Contracts, Dealing with Construction Permits, and Employing Workers) and the country remained last place in two others (Protecting Investors and Closing a Business). Commerce Minister Shahrani has formed a Task Force within his ministry to formulate an action plan by the end of December to address these shortcomings. End Summary.

RECORD LEAP FORWARD IN ACCESS TO CREDIT

¶2. The World Bank's 2010 Doing Business Report shows Afghanistan jumping fifty-three spots (from 180 to 127) for improving its access to credit, mainly by passing laws on secured transactions for mortgages and moveable property. A USAID project provided technical assistance that helped Afghans draft the laws and trained the Central Bank legal department personnel on their application. The laws broaden the range of assets that can be used as collateral and define debts and obligations. The new laws also enable out-of-court enforcement. Central Bank Governor Fitrat championed passage of the legislation and conducted substantial public outreach to educate the private sector and legislators on the laws.

PROGRESS IN REGISTERING PROPERTY

¶3. The World Bank Report also notes the Afghan Government simplified the property registration process and reduced property transfer tax from five to two percent of the property value. This step improved Afghanistan's ranking on property registration by 12 places (from 176 to 164). By lowering registration fees, the Afghan Government hopes to be able to collect from buyers and sellers who would not normally register their transactions. The Government also simplified property registration procedures, cutting the number of required steps from over thirty to just three for urban land and to four for rural land. The Ministry of Commerce and Industry expects these two reforms to increase compliance levels in Kabul from 20% to 60% over the next five years, with court revenues from property registration fees rising from 117 to 175 million Afghani annually (or from \$2.3 million to \$3.5 million). Continued USAID technical

assistance will help to reduce the number of days required, on average, to transfer property as well as help support expanding the land registration program beyond Kabul.

REFORMS MAKE IT EASIER TO START A BUSINESS

¶4. Afghanistan ratcheted up its ranking for starting a business one notch, from 24 to 23. The World Bank noted Afghanistan simplified its business start-up process by taking company registration out of the commercial courts and establishing a new company registry that acts as a one-stop shop. The reform combines company registration, tax registration, publication in the official gazette, and charges a flat registration fee.

FIVE AREAS SLIPPED DESPITE OVERALL IMPROVEMENT

¶5. Afghanistan's ranking in five areas slipped: Trading Across Borders, Paying Taxes, Enforcing Contracts, Dealing with Construction Permits, and Employing Workers. The report stated many of these areas are rife with corruption and bureaucratic delays in document processing. One area, Employing Workers, dropped due to lack of a sufficient legal framework.

DEAD LAST IN TWO CATEGORIES

¶6. Afghanistan ranked last among 183 countries in two categories, Protecting Investors and Closing a Business. Investor protection is measured on the basis of transparency of transaction, shareholders' ability to sue officers and directors for misconduct, and strength of investor protection. On a scale of one to ten, Afghanistan rated zero in transparency, two in terms of shareholders' ability to sue for misconduct, and 0.7 in terms of investor protection, again due to an insufficient legal framework. The Closing a Business category includes the time and cost required to resolve bankruptcies. The

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lack of available data in this area resulted in Afghanistan's last place ranking, but also indicate weaknesses in its existing bankruptcy law and administrative process.

COMMENT

¶7. Minister of Commerce and Industries Wahidullah Shahrani recently stressed the importance of raising Afghanistan's ranking in the World Bank survey at a November 4 international donors' conference on private sector development. He said he had formed a task force within his ministry to formulate an action plan addressing the shortcomings identified in the survey. He wants the plan completed by the end of 2009 and then reviewed with international donors. End comment.

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